

“An Overview of Army Contract Pricing Concerns”

**Lynn DeRoche
Chief of Contracting Office
TACOM LCMC (RI)**

**William Roche
Price Analyst
TACOM LCMC (Warren)**

Agenda

a

- **Background and History**
 - **Where We Have Been**
 - **Army Think Tank Issues**
 - **GAO and Army Observations**
- **Specific Price/Cost Concerns**
 - **IGCE**
 - **Source Selection**
- **What Needs to be Done**
- **Who Are the Players**

Background

History

- **10 Years of Downsizing**
- **CP-14 Lost 55% of Work Force**
- **Heavy Reduction in Pricing and Production**
 - **Workload Moved to PCO/Contract Specialist**
 - **Workload Moved to Requirements Organization**
 - **Secondary Help From**
 - ✓ **DCAA**
 - ✓ **DCMA**
 - ✓ **Contractors**

Background History

- **DRAMATIC INCREASE in WorkLoad**
- **Large Contract Values / More Complex Instruments / Longer in Duration / More Services**
- **FAR Changes Relieved Contractors**
 - **Added Gov't Responsibility in Determining Price/Cost Reasonableness**
- **Obligation Speed is Major Focus**
- **Rebuilding Work Force - Added Demands on Skilled People**

Background

History

Army Think Tank Questions to PARC Organization and their Responses

- **Major Indication by PARC's of Shortcomings in Pricing and Negotiations Skills**
 - **50% Highlighted Source Selection as a Problem**
 - **38% Highlighted Quality as a Problem**
 - **35% Highlighted Employee Self Assessment**
 - **26% Highlighted Customer Feedback and External Reviews**
 - **10% Said They are OK, Skills Fine**

Background

History

Army Think Tank Questions to PARC Organization and their Responses

■ Symptoms

- Weak Cost Analysis
- Lack of Seasoned Pricers with Skills and Knowledge
- Heavy Reliance on a Few Experts
- Difficult to Retain Experts
- Reliance on External Pricing Support DCAA, DCMA, Contractors
- Limited Ongoing Analytical Work
- Widely Varying Pricing/Cost Analytical Skills Within Army Contracting Organizations
- Not Every Organization Possesses High Order Pricing Skills, Nor Do They Need them

GAO and Army

■ Meaningful Observations

- Adequate Information for Offeror to Understand Excessive Pricing
- Government Must Disclose Government Adjustments
- Known Error in Analysis Not Corrected

■ Price Realism

- Holistic Integrated Assessment of Proposals Not Happening
- GAO Upholds Gov't Right to Look at the Complete Cost

GAO and Army

■ Cost Observations

- **Use of Known Flawed Data**
- **Assessments that do not Follow RFP**
- **Using Incumbent Contractor Proposal Data Prejudicial to Others**
- **Ignoring Unreasonable Low Rates of Compensation**
- **Inadequate and Not Well Thought Out Analysis**

Specific Price/Cost Concerns

- **Independent Gov't Cost Estimate (IGCE)**
 - **Simple IGCE Techniques**
 - ✓ **Market Survey (Before the Fact)**
 - ✓ **Historical Pricing Data (After the Fact)**
 - **Complex or High Dollar IGCE**
 - ✓ **Services (Frequently Used)**
 - ◆ **New Estimate**
 - ◆ **Historical Data**
 - ✓ **Construction (Mandatory FAR 36.203)**
 - ✓ **Major Systems (Infrequent)**

IGCE Issues

- **No Master Estimating Manual for IGCE**
- **Varied Resources Used to Develop IGCE**
- **Lack of or No Training**
- **Rarely are the PCO or Core Pricing People Involved**
- **SSEB Rarely Does a Sanity Check**

IGCE Issues

- **Over Reliance on Incumbent Historical Data**
 - **Historical Cost vs What it Should Cost**
- **Preparation Independent of SSEB**
- **No Testing of IGCE to Solicitation Requirements**
- **IGCE-Ground Rules Lacking or Not Consistent with Solicitation**
- **IGCE Ground Rules NOT Documented**
- **Some SSEB Over-reliance on IGCE for Reasonableness/Realism**
- **Unique Contractor Approaches Overshadowed by IGCE Vision**

Discussion Context for Source Selection Price/Cost Evaluation Concerns

- Source Selection Using Trade-Off Analysis Covers a Wide Range of Complexity
 - Simple : Defined product with performance risk evaluation
 - Moderate: Services or performance based products with some probable variation in approach to performance
 - Complex: Large scale systems or services, new technological solutions, where offerors' approaches may vary widely
- The following discussion generally assumes that offerors will propose varying approaches to meet the government's requirements

Source Selection Price/Cost Evaluation Concerns

- **Obligation to Conduct Meaningful Discussion Cost/Price**
 - **No Consistent Approach(s)**
 - ✓ **Treatment of Overstatements/Understatements**
 - ✓ **Apprehension on how far to go in Discussions**
- **Obtaining Best Arrangement for Gov't Not Always Addressed**
- **Evaluation structure effect on incumbent vs. non-incumbent contractors**

Source Selection Price/Cost Evaluation

Concerns to ENTER Negotiation When Need Exists

- Perception - Negotiation Takes Too Much Time
- Perception - Protest Risk Increases
- Tendency to Ask Questions vs Identifying/
Focusing on Issues
- Fairness to Offerors is Important
 - Fairness Does Not Mean Identical Treatment
- Inadequate Crosswalk, Technical vs Cost

Source Selection-Criticality of Cost/Tech Crosswalk

- **Tech team and Cost Team - May Not Understand Obligation**
 - **“Not My Job - I Just Want to Do the Numbers”...**
 - **Resistance Because it's a Time Impediment**
 - **Perceived Resource Issue**
 - **Lack of Understanding of Need to Evaluate the Whole of the Proposal (Integrated Assessment)**
 - **Reluctance to Share Cost Data with the Technical Team**

Source Selection-Criticality of Cost/Tech

Crosswalk

- **Team Must Understand the Terms & Conditions of the RFP**
 - **Cost Realism is the End Result of the Tracking of Cost Proposal to Technical Proposal to Meet Requirements**
- **SSEB Leadership Has Responsibility to Assure Meaningful Crosswalk Takes Place**
- **SSEB Board Training is a Serious Short Coming - Training Needs to be Married With Experience**
- **Use of Internal Resources For Management Is Critical**
- **Auditors Tend to Revert to Auditing vs Integrated Assessment**

Price/Cost Realism-Source Selection

Realism: FAR 15.404-1(d)

- **“Cost Realism Analysis is the Process of Independently Reviewing and Evaluating Specific Elements of Each Offeror’s Proposed Cost Estimate. Determine Whether the Proposed Cost Elements Are Realistic For the work to be Performed; Reflect a Clear Understanding of the Requirements; and are Consistent With the Unique Methods of Performance and Materials Described in Offeror’s Technical Proposal.”**

Cost Realism

Concerns/Issues/Observations

- **Understanding the Role & Responsibility Needs Clarity and Reinforcement in Skill Development**
- **Reluctance of Cost/Price/PCO/Team In Sharing Data with Tech Evaluators to Reach Reasonableness Conclusions. (This Data is Normally Material, ODCs, Subcontracts and Labor Hours)**
- **Must Look at the Whole Proposal on an Integrated Basis**

Price Realism

- **Assessment of Risk that Offeror can Successfully Complete the Effort at the Proposed (Reasonable) price**
- **In Source Selection Trade Off Decisions:**
 - **NOT Subject to Adjustment-Offeror can Choose to Propose Below Actual Cost**
 - **Must be Evaluated as Performance Risk to be part of Trade Off Decision**
 - **Price Realism or Risk Assessment Criteria such as Understanding the Requirement Must be Present to Use in Decision Rationale**
 - **If Price Realism Not Stated as Criteria, Becomes a Matter of Responsibility (Including COC Process if Small Business)**

Concerns with Cost/Price Evaluation Presentation to SSA/SSAC

- **RFP structure drives level of detail provided**
 - **Wrong RFP structure will not allow adequate crosswalk or required level of detail**
- **Adequate Pricing Detail Must be Presented to SSA/SSAC to Understand the Various Proposed characteristics and the Reasonableness/Realism of the Proposals**
- **Data Should be Presented in a Consistent Format**
- **Realism Presentation Should Address each Element, the Adjustments & Rationale**
- **Adjustments Must Have an Audit Trail to RFP/Clarification/ Technical Proposal, and Discussions as Appropriate**

Fair & Reasonable Determination - **Source Selection**

■ Reasonableness:

- “A Cost is Reasonable if, in its nature and Amount, It Does Not Exceed That Which Would Be Incurred by a Prudent Person in the Conduct of Competitive Business”.....This Decision Belongs to the PCO Supported by his Team and in Concert with the SSA.**
- Sole Source**
 - ✓ Non-Complex - Most Problems Are Documentation Issues and the Display of Analysis**
 - ✓ Complex - DCAA Audit Issues Not Specifically Addressed**
- Competitive - Non Cost-Technical Tradeoff, It is Proposed Price to Meet Minimum Requirements**

Fair & Reasonable Determination - **Source Selection**

- **Source Selection - Basic Question: Is it a Good Deal for Government and Consistent with the Technical Approach?**
 - ✓ **Look at the Whole as Well as the Parts.**
 - ✓ **Price Reasonableness is Driven by Performance Requirements, Market Place, Company and Government Business Objectives Including Technical & Delivery Solutions, and Risk Reduction**
 - ✓ **Assessment is More than Comparative Pricing**

Most Probable Cost

- **FAR 15.404-1(d)(2): “Cost Realism Analysis Shall be Performed on Cost Reimbursement Contracts to Determine Probable Cost of Performance for Each Offeror.”**
- **FAR 15-404-1(d)(2)(i): “The Probable Cost Shall be Used for Purposes of Evaluation to Determine the Best Value.”**

Price/Cost Considerations Must

Address

the Need to and Process for:

- **Perform Advance Planning, it is the Key to Success**
 - **Creation of Limited & Specific Price/Cost Criteria Instructions**
 - **Select Skilled Source Price/Cost Personnel**
- **Assure RFP Sections are Integrated**
- **Perform Meaningful Crosswalk of Evaluation Documents to the RFP Sections Prior to Closing Discussions**
 - **Internal Consistency**
 - **Consistent Treatment of Offer errors with Similar Issues**
- **Ensure Price/Cost Evaluations Reflect an Integrated Assessment of Proposals**
- **Evaluate Phase-In Costs, Where Appropriate, as Part of Total Evaluated Price/Cost**

What Needs to Be Done!

■ Resources:

- **Army Focus on Rebuilding Price/Cost Analytical Skills**
 - ✓ **Assess Need Across the Army and Best Way to provide Support**
 - ✓ **Assess Career path for Financial Price/Cost Analyst and Technical Price/Cost Analyst**
 - ✓ **Assess Formal Training Needs - (DAU, College & University) Basic Training - Like Cost Accounting Standards Work Shop, etc.**
- **On The Job Experience - Critical Part - Continuous Exposure**
 - ✓ **Not Many Trainers Left - Workload Affects Availability**

What Needs to Be Done!

■ Resources:

- More Extensive Skills are Needed
- Additional Guidance is Needed

■ Financial Price/Cost Analyst: Mathematics, Statistics, Computer Skills, Algorithm Development, Briefing and Communication Skills, Finance, Accounting, Economics, Parametrics, Analytical Skills, Management and Leadership Skills, Negotiation Skills

■ Technical Cost/Price Analyst: Knowledge of Manufacturing Processes and Methods, Strong Computer Skills, Communication and Briefing Skills, Parametrics, Engineering Economics, Analytical Skills, Management and Leadership Skills, Negotiation Skills

What Needs to Be Done!

- **PCO/Contract Specialist (Bulk of the Work is Accomplished Here)**
 - **Location and Complexity Determines Skill Level Need (Generally)**
 - **More Focus on Pricing/Negotiation Skill Capability (Targeted SME Training)**
 - **Access to Experts (Internal and External)**

- **ARMY MUST DECIDE:**
 - **To Put Money and Effort into Rebuilding Price/Cost Capability.**
 - **To Put More Focus on PCO Development,**
 - **Better Utilization of DCAA, DCMA, and the Potential Use of Contractors**

What Needs to Be Done!

■ IGCE:

- **Army Estimating Manual**
- **Defined Ground Rules for IGCE Development by PCO/SSEB Team**
- **Cross Walk IGCE with RFP Requirement**
- **Avoid Use of Incumbent Data**
- **Use IGCE as Measurement Tool, Not Gospel**
- **Consider Offeror Unique Approaches**
- **PCO/SSEB Team Should Test the IGCE for Compatibility to RFP & Source Selection Plan**

What Needs to Be Done!

- **Source Selection Cost Evaluation:**
 - **SSA Responsibility to Form Evaluation Team with Capable Price/Cost Skills**
 - **Integrated Training of Technical & Cost Teams to Assure Understanding of the Evaluation Criteria**
 - **Acquisition Team, PM/PCO, SSEB must Cross Walk RFP, Terms & Conditions, Technical Requirements, Cost Submittal, Past Performance and Source Selection Plan**
 - **Consistent Data Approach for Analysis**

What Needs to Be Done!

■ Cost Realism Discussions

- **Share Assessment of Proposal and Reasons for Significant Differences**
- **Address Specific Significant Differences Over and Under**
 - ✓ **Percentage Basis**
 - ✓ **Narrative Basis**

Who is Responsible/Who Does the Work?

- PCO
- Contract Specialist
- Financial Cost/Price Analyst
- Technical Cost/Price Analyst
- Customer/Requirement Office
- SSEB
- DCAA
- DCMA
- Contractors